



KRS MEMBER NEWS

Kentucky Employees Retirement System • County Employees Retirement System • State Police Retirement System

VOLUME 20, ISSUE 3

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KRS Briefs



PIN Identification Number

The Kentucky Retirement Systems is pleased to announce a new service available to our members. Those wishing to obtain specific information regarding their account by telephone can do so by completing a Form 1000. This will authorize our staff to issue a Personal Identification Number (PIN). To take advantage of this service, you may contact our office for more information. Or, simply print the Form 1000 provided on our website at www.kyret.com. The Form 1000 must be completed in its entirety, acknowledged by a notary public and returned to the retirement office. Your PIN should arrive at the address on file with our office within 10 days.

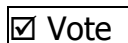


Service Purchase Overview

Active members of KERS, CERS, and SPRS will soon be mailed an informational publication on purchasing service credit. This publication will help answer the following types of questions:

- Why Purchase Service Credit?
- Do I Qualify To Purchase Service?
- How Are Purchase Costs Calculated?
- What Purchase Types Are Available?
- How Can I Pay For A Service Purchase?
- What Steps Are Required to Receive A Purchase Calculation?

The goal of the publication is to help improve your understanding of service purchases so that you can make better decisions about your retirement. Please be sure to keep your copy of the publication for future reference.



SPRS Board Member Election

Ballots for the election of a State Police Retirement System member to the KRS Board of Trustees will be mailed in January to employees, inactive members, and retirees of SPRS. Ballots returned to the retirement office must be postmarked no later than March 1st, 2003 in order to be valid.

New Payment Options For Purchasing Service Credit



Before Tax Installment Payments

The 2002 General Assembly authorized the Kentucky Retirement Systems Board of Trustees to establish a program to purchase service credit by "employer pickup" before tax contributions. On October 15th 2002, the retirement office received approval from the IRS to begin the new "before tax" installment purchase of service (IPS) program.

What Does This Mean To Me?

Paying for service purchases with before tax payroll reductions can benefit the member by reducing their taxable income in the year the reductions are made. This option does not eliminate taxes but rather defers tax liability until the time of retirement. Often at retirement, a member will be in a lower tax bracket, which can reduce the amount of taxes paid.

When Will The Before Tax Installment Purchase of Service Agreement Be Available?

The retirement systems will begin accepting before tax payroll reduction agreements from employees in February 2003. The earliest effective date for receipt of before tax contributions from agencies will be those payroll reports due in March 2003. Members who currently have an "after-tax" IPS contract will have the option to convert to a "before tax" IPS for the remaining installments on their contract without a recalculation of the service purchase provided they do

continued on page 2

INSIDE THIS ISSUE

- 1 KRS BRIEFS
- 1 NEW PAYMENT OPTIONS FOR PURCHASING SERVICE CREDIT
- 2 FINANCIAL HIGHLIGHTS
- 5 2003 CONFERENCE SCHEDULE
- 6 WHEN AN EMPLOYEE IS NO LONGER WORKING
- 7 CHANGING YOUR ADDRESS
- 8 HOW TO REQUEST INFORMATION

so by December 31, 2003. Participation in the before tax installment plans will be contingent on the member's employer completing a new certification form to allow employees to elect this payment option.

How Does It Work?

The new installment agreement will resemble the contract currently used by KRS with one major exception. All payroll reductions under the before tax IPS program shall be **irrevocable** once the member has completed the necessary forms. This means the member cannot stop payment on the contract or payoff the remaining balance except upon termination of employment or death.

Upon termination or death, the member or beneficiary will be given 60 days from the termination date to payoff the remaining balance of the installment agreement. If the member or beneficiary chooses not to payoff the contract, the member's account will only be credited with the amount of service purchased by installments through the termination date.

If a member is placed on military leave or approved sick leave without pay, payroll reductions will be suspended for the duration of approved leave. When the member returns to work in a participating position, payroll reductions shall continue under the before tax installment agreement.

Upon termination of employment, retiring members may elect to payoff a before tax installment purchase of service agreement. However, no payment for the remaining balance of the contract can be received after the member's effective retirement date.

Example: John Doe has a before tax installment purchase agreement and is planning to terminate employment July 31, 2003. He elects to payoff the remaining balance on the contract and does so on August 10, 2003. Therefore, his effective retirement date will be September 1, 2003.

Beneficial New Tax Law

On January 1, 2002, the provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) became effective. This new tax law greatly expands the "portability" of your retirement dollars by allowing you, in certain circumstances, to roll over or transfer funds between defined contribution plans and government pension plans. This new law is good news

for members of KRS who have eligible service credit that they can purchase in one of the plans administered by Kentucky Retirement Systems.

What this means for you is that, subject to certain restrictions, you will now be able to use account balances in Section 401(a) plans, Section 401(k) plans, Section 403(b) plans, Section 457(b) government plans and IRAs to purchase eligible service credit with the KRS. You may apply a rollover or trustee-to-trustee transfer toward the full or partial payment of the purchase of eligible service credit.

2002 Financial Highlights

The following article provides an overview of the financial activities of the pension and insurance funds administered by Kentucky Retirement Systems for the fiscal year ended June 30, 2002. For more detailed information, please refer to Audited Financial Statements and Independent Auditor's Report or in the Comprehensive Annual Financial Report available at www.kyret.com under Annual Reports.

Funding Overview

Kentucky Retirement Systems benefits are funded through three sources: member contributions, employer contributions, and return on investments.

Upon receipt, member contributions are deposited into the pension funds administered by KRS. Assets of the pension funds are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries. Employer contributions are allocated between the pension and insurance funds. The assets of the insurance fund are restricted in use to provide hospital and medical insurance benefits to members and beneficiaries of the pension funds who receive a monthly retirement allowance.

Pension Fund Activities

During the 2001-2002 fiscal year, the combined plan net assets of all pension funds administered by KRS decreased by \$856.3 million or roughly 7.3% (from \$11,763.2 million to \$10,906.8 million). The decrease is attributable to unfavorable market conditions. Changes in the plan net assets of the pension fund for the fiscal years ended June 30, 2002 and June 30, 2001 are listed

continued on page 3

in the following table.

Pension Fund: Change in Plan Net Assets
(in Millions)

| | 2002 | 2001 |
|-----------------------------|------------------|------------------|
| Additions: | | |
| Member Contributions | \$286.8 | \$250.2 |
| Employer Contributions | \$26.3 | \$105.5 |
| Investment Income (net) | (\$498.0) | (\$698.5) |
| Total Additions | (\$184.9) | (\$342.8) |
| Program Deductions: | | |
| Benefit Payments | \$640.9 | \$549.1 |
| Refunds | \$17.9 | \$18.6 |
| Administrative Expense | \$12.6 | \$10.9 |
| Total Program Deductions | \$671.4 | \$578.6 |
| Other Deductions (net) | \$0.0 | (\$0.6) |
| Total Deductions | \$671.4 | \$578.0 |
| Increase (Decrease): | (\$856.3) | (\$920.8) |

Member contributions to the pension fund increased by \$36.6 million over the previous fiscal year. The increase in member contributions is a reflection of the increase in covered payroll reported to Kentucky Retirement Systems.

Employer contributions to the pension funds decreased 79.2 million over the previous fiscal year. The decrease is attributable to a larger portion of the employer contribution being allocated to the insurance fund.

Net investment income for the pension fund increased by 28.7% (loss of \$498.0 million in 2002 compared to a loss of 698.5 million in 2001). Although this represents a net loss in investment income, the decline in net appreciation of the fair value of investments was not as great as in the prior fiscal year.

Program Deductions increased by \$93.4 million caused primarily by an increase of \$91.8 million in benefit payments. The increase in benefit payments is due to the addition of 3,400 members and beneficiaries on the retired payroll as of June 30, 2002 and a cost-of-living adjustment of 3.4% for retirees receiving a retirement allowance as of July 1, 2001.

Insurance Fund Activities

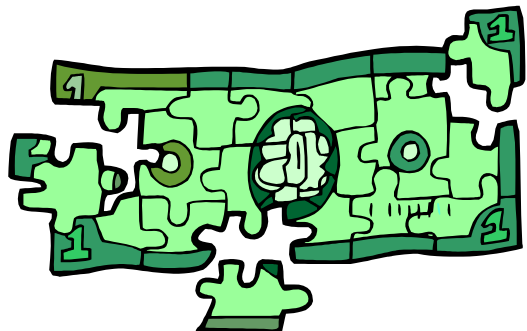
During the 2001-2002 fiscal year, the combined plan net assets of all insurance funds administered by KRS increased by \$117.9 million or roughly 10.9% (from \$1,078.5 million to \$1,196.4 million). Changes in the plan net assets of the insurance fund for the fiscal years ended June 30, 2002 and June 30, 2001 are listed below.

Insurance Fund: Change in Plan Net Assets
(in Millions)

| | 2002 | 2001 |
|-----------------------------|----------------|----------------|
| Additions: | | |
| Member Contributions | \$0.0 | \$0.0 |
| Employer Contributions | \$267.3 | \$182.6 |
| Investment Income (net) | (\$52.5) | (\$40.7) |
| Total Additions | \$214.8 | \$141.9 |
| Program Deductions: | | |
| Administrative Expense | \$0.8 | \$0.7 |
| Healthcare premiums | \$96.1 | \$81.9 |
| Total Program Deductions | \$96.9 | \$82.6 |
| Other Deductions (net) | \$0.0 | \$0.0 |
| Total Deductions | \$96.9 | \$82.6 |
| Increase (Decrease): | \$117.9 | \$59.3 |

Employer contributions paid into the insurance fund increased \$84.7 million over the previous fiscal year. The increase is attributable to a larger portion of the employer contribution being allocated to the insurance fund and an increase in covered payroll reported to Kentucky Retirement Systems.

Net investment income for the insurance fund decreased by 28.7% (loss of \$52.4 million in 2002 compared to a loss of \$40.7 million in 2001). The



continued on page 4

decline in net investment income is attributable to the continuing decline in the fair value of investments and the decline in investment income.

Program deductions increased by \$14.3 million explained almost totally by the increase in payment of healthcare premiums of \$14.2 million.

Kentucky Retirement Systems as a Whole

Kentucky Retirement Systems' combined plan net assets decreased during the year ended June 30, 2002 by \$738.4 million from \$12,841.7 million to \$12,103.2 million. Plan net assets for the prior fiscal year decreased by \$861.5 million. The decrease for the plan year ended June 30, 2002 is attributable to unfavorable market conditions. Changes in the plan net assets of the combined pension and insurance funds for the fiscal years ended June 30, 2002 and June 30, 2001 are listed below.

Pension and Insurance Funds: Combined Change in Plan Net Assets* (in Millions)

| | 2002 | 2001 |
|-----------------------------|------------------|------------------|
| Additions: | | |
| Member Contributions | \$286.8 | \$250.2 |
| Employer Contributions | \$293.6 | \$288.1 |
| Investment Income (net) | (\$550.5) | (\$739.2) |
| Total Additions | \$29.9 | (\$200.9) |
| Program Deductions: | | |
| Benefit Payments | \$640.9 | \$549.1 |
| Refunds | \$17.9 | \$18.6 |
| Administrative Expense | \$13.4 | \$11.6 |
| Healthcare Premiums | \$96.1 | \$81.9 |
| Total Program Deductions | \$768.3 | \$661.2 |
| Other Deductions (net) | (\$0.0) | (\$0.6) |
| Total Deductions | \$768.3 | \$660.6 |
| Increase (Decrease): | (\$738.4) | (\$861.5) |

*Sum of all pension and insurance funds administered by KRS.

Actuarial Funding Progress

Kentucky Retirement Systems has an actuary prepare an actuarial valuation as of June 30th each year. The purpose of the valuation is to provide a "snapshot" of the

status of the retirement systems. In doing so, the actuary will examine the actuarial accrued liabilities and assets of the retirement systems based upon the actuarial assumptions. These assumptions include both demographic factors (i.e. retirement rates) and economic factors (i.e. investment return). If the actuarial liabilities exceed the actuarial assets, then an unfunded liability results. The following information details the actuarial accrued liabilities and assets of the pension and insurance funds for the retirement systems.

The current funding position of the pension funds continues to provide adequate assets to meet pension obligations. However, unfavorable market conditions continue to place significant pressure on the funded status of the pension funds. The actuarial assets and liabilities for each of the systems as of June 30, 2002 are displayed in the table below.

| Pension Fund Actuarial Assets & Liabilities (in Millions) | | | |
|--|------------------|-----------------------|----------------|
| System | Actuarial Assets | Actuarial Liabilities | Percent Funded |
| KERS | \$7030.5 | \$6348.2 | 110.7% |
| CERS | \$6883.3 | \$5492.6 | 125.3% |
| SPRS | \$439.0 | \$380.8 | 115.3% |

Although significant progress has been made in recent years, the insurance fund continues to have a large unfunded actuarial liability for all of the participating employee groups. As of June 30, 2002, the unfunded actuarial liability of KERS, CERS, and SPRS exceeded **\$3.7 billion**. The actuarial assets and liabilities for each of the individual systems as of June 30, 2002 are provided in the table below.

| Insurance Fund Actuarial Assets & Liabilities (in Millions) | | | |
|--|------------------|-----------------------|----------------|
| System | Actuarial Assets | Actuarial Liabilities | Percent Funded |
| KERS | \$657.1 | \$2144.5 | 30.6% |
| CERS | \$685.2 | \$2758.8 | 24.8% |
| SPRS | \$86.8 | \$165.4 | 52.5% |

Membership Statistics

The membership of KERS, CERS, and SPRS is listed in the following table. As of June 30th, 2002 the three

continued on page 5

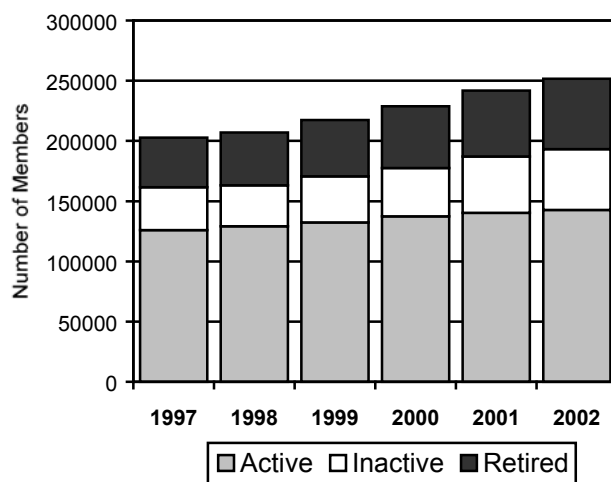
systems had a combined active, inactive, and retired membership of 251,573.

Membership
(as of June 30, 2002)

| <u>System</u> | <u>Active</u> | <u>Inactive</u> | <u>Retired</u> | <u>Total</u> |
|----------------|----------------|-----------------|----------------|----------------|
| KERS | 48,555 | 17,714 | 26,703 | 92,972 |
| KERS Hazardous | 4,211 | 1,073 | 1,208 | 6,492 |
| KERS Total | 52,766 | 18,787 | 27,911 | 99,464 |
| CERS | 79,850 | 30,978 | 26,147 | 136,975 |
| CERS Hazardous | 8,949 | 700 | 3,483 | 13,132 |
| CERS Total | 88,799 | 31,678 | 29,630 | 150,107 |
| SPRS | 1,002 | 103 | 897 | 2,002 |
| Grand Total | 142,567 | 50,568 | 58,438 | 251,573 |

The progression of active, inactive, and retired members for the combined systems over the last six years is provided in the chart below.

Six Year Membership Growth



2003 Conference Schedule

Pre-Retirement Seminars

At pre-retirement seminars members of Kentucky Retirement Systems will have the opportunity to hear

presentations on retirement benefits/planning specific to KERS, CERS, and SPRS. Guest speakers will discuss Social Security, Deferred Compensation, Medical/Hospital Insurance, Estate Planning, and Wills/Taxes/Trusts. The same presentation will be given each day, so members may attend the one that is most convenient. A schedule of the 2003 pre-retirement seminars is listed below.

2003 PRE-RETIREMENT SEMINARS

SEMINAR DATE

LOCATION

MAY 8-9
CITY OF LOUISVILLE
MEMORIAL AUDITORIUM

JUNE 5-6
CITY OF FRANKFORT
HOLIDAY INN – CAPITOL PLAZA

JULY 30-31
BARREN RIVER STATE PARK

AUGUST 27-28
KY DAM VILLAGE STATE PARK

SEPTEMBER 23-24
GREENBO LAKE STATE PARK

OCTOBER 23-24
PINE MOUNTAIN STATE PARK

THE SEMINARS START AT 8:15 A.M. AND END AT 3:30 P.M. EACH DAY.

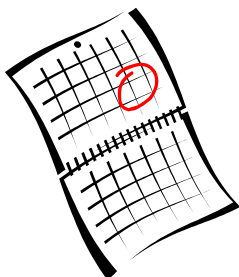
One-On-One Conferences

For your convenience, we will be providing one-on-one conferences throughout the state. These sessions give members the opportunity to meet individually with a Retirement Counselor to discuss retirement estimates, service purchases, and questions regarding individual retirement accounts. **You must make an appointment for the One-On-One Conferences.** To reserve an appointment for a particular conference, please call the Employee Call Center at 1-800-928-4646 Extension 4522. Members should consider what retirement dates, purchases, and information are desired for the one-on-one session before making an appointment. You are encouraged to bring your spouse. A photo ID is

continued on page 6

required at the session. A schedule of the 2003 one-on-one conferences is listed below.

| 2003 ONE-ON-ONE CONFERENCES | | |
|------------------------------------|---|-----------------------------|
| <u>SEMINAR</u> | <u>CONFERENCE</u> | <u>CALL FOR APPOINTMENT</u> |
| <u>DATE</u> | <u>LOCATION</u> | <u>BEGINNING</u> |
| JAN. 27-30 | CITY OF LOUISVILLE MEMORIAL AUDITORIUM BALLROOM | DECEMBER 23, 2002 |
| FEB. 24-27 | ROUGH RIVER DAM STATE RESORT PARK | JANUARY 27, 2003 |
| MAR. 24-27 | BARREN RIVER LAKE STATE RESORT PARK | FEBRUARY 24, 2003 |
| APR. 21-24 | JENNY WILEY STATE RESORT PARK | MARCH 24, 2003 |
| MAY 19-23 | JOHN JAMES AUDUBON STATE PARK | APRIL 20, 2003 |
| JUNE 16-19 | PENNYRILE FOREST STATE RESORT PARK | MAY 19, 2003 |
| JULY 14-17 | KY DAM VILLAGE STATE RESORT PARK | JUNE 16, 2003 |
| AUG. 11-14 | LAKE CUMBERLAND STATE RESORT PARK | JULY 14, 2003 |
| SEPT. 8-11 | PINE MOUNTAIN STATE RESORT PARK | AUGUST 11, 2003 |
| OCT. 6-9 | NATURAL BRIDGE STATE RESORT PARK | SEPTEMBER 8, 2003 |
| NOV. 3-6 | CARTER CAVES STATE RESORT PARK | OCTOBER 6, 2003 |
| DEC. 8-11 | CITY OF COVINGTON CITY HALL | NOVEMBER 3, 2003 |



**YOU MUST MAKE AN
APPOINTMENT FOR THE
ONE-ON-ONE
CONFERENCES.**

When An Employee Is No Longer Working

From time to time, you may wonder, "What can I do with my retirement account if I leave employment?" Upon termination of employment, you have three options in regard to your retirement account: retire if eligible, take a refund of retirement contributions, or leave the contributions in the retirement system until you reach retirement eligibility.

When Is An Employee Eligible to Retire?

Retirement eligibility is dependent upon your age, service credit, and type of service (hazardous or non-hazardous).

A **non-hazardous** employee is eligible for a monthly retirement benefit if the employee is:

- Age 65 with at least 1 month of service credit (unreduced benefit).
- Any age with at least 27 years of service credit (unreduced benefit).
- Age 55 with at least 60 months of service credit (reduced benefit).
- Any age with at least 25 but less than 27 years of service credit (reduced benefit).

A **hazardous** employee is eligible for a monthly retirement benefit if the employee is:

- Age 55 with at least 1 month of service credit (unreduced benefit).
- Any age but has at least 20 years of service credit (unreduced benefit).
- At least age 50 with at least 15 years of service credit (reduced benefit).

Refund of Retirement Contributions

If you are not eligible to retire upon termination of employment, you can withdraw your individual retirement contributions plus any accumulated interest. The payment can be paid directly to you or you can elect to roll the funds over into another qualified retirement plan.

If you elect to receive a direct payment, KRS is required to withhold 20% for federal income taxes. The amount

continued on page 7

withheld is not a penalty tax and will apply towards your federal tax liability for the year in which the refund was issued. Additional taxes due to age or other factors may also apply if you receive a direct payment.

If you elect to rollover the funds into another qualified plan, the payment will not be subject to federal income taxes at the time of withdrawal.

In order to process a refund of contributions, you must complete a Form 4525, Request for Refund of Contributions. In addition, you must have a completed Form 2001 on file with the retirement office. Your agency reporting official is also required to submit a completed Form 2020 or Personnel Action Form listing your date of termination. A refund cannot be issued until all three forms are filed with the retirement office.

Wait Until Eligible to Retire

If you are not eligible to retire upon termination, you may also choose to leave the funds in your retirement account until you are eligible to retire or until you reach minimum distribution age of 70 ½. You may withdraw all funds and close the account at any time, provided you are not employed with an agency participating in Kentucky Retirement Systems. If you return to work with another participating agency, the service earned in the new position can be combined to determine retirement eligibility and benefits. For a list of participating agencies, please contact the retirement office.



Changing Your Address

It is important to keep your address current with the retirement office. Doing so will ensure retirement checks, annual statements, newsletters, and any requested materials are delivered to you on time. If you need to change your address with the retirement office, please follow the procedures listed below:

- **Check With the Post Office**
Be sure that your correct address is on file at the U.S. Post Office. Each month Kentucky Retirement Systems updates the address on file for you with the U.S. Post Office through the National Change of Address (NCOA) system. If the correct address is not on file with the Post Office, your address on file at KRS may be replaced with an incorrect address,

and mail from KRS may not be forwarded by the Post Office.

- **Complete and File a Form 2040**

You should also complete a Form 2040, Change of Address Notification and file it with the retirement office. A copy of this form can be sent to your home address by calling the retirement office or you can download a copy from our website at www.kyret.com.



Minimum Distribution Requirements

Federal tax law requires that members who are no longer working for a participating KRS employer to begin drawing benefits or withdraw contributions soon after reaching age 70 ½. If you are age 65 or older, you may wish to begin planning for withdrawal or retirement in order to avoid any applicable penalties. If you are age 70 ½ or older and no longer contributing to one of the retirement systems, please contact KRS immediately for the appropriate forms to apply for retirement or a refund to avoid substantial and recurring federal tax penalties.

Federal tax law also requires the beneficiary of an active or retired member to begin benefits or take a refund soon after the member's death. Beneficiaries should contact KRS soon after the member's death to begin benefits or take a refund in order to avoid any applicable penalties.



New School Board Audit Procedure

Before KRS can provide retirement estimates and purchase costs to a school board employee, an audit of the member's service credit must be completed. If you are a school board employee with service credit prior to July 1, 1996, your agency reporting official will be asked to complete a Form 4245, School Board Audit Letter. The Form 4245 verifies the hourly rates, contract days, and actual days worked for fiscal years prior to July 1, 1996. KRS will not request a Form 4245 if the information is already in your file.

IMPORTANT EVENTS IN JANUARY 2003



2003 GENERAL ASSEMBLY BEGINS.



1099-RS ARE MAILED TO RETIREES AND BENEFICIARIES RECEIVING A RETIREMENT ALLOWANCE.

Requesting Information

Members with questions about their accounts can contact the Kentucky Retirement Systems:

**BY
MAIL**

**KENTUCKY RETIREMENT
SYSTEMS**

PERIMETER PARK WEST
1260 LOUISVILLE ROAD
FRANKFORT, KY 40601-6124

ALL WRITTEN INQUIRIES SHOULD INCLUDE THE MEMBER'S NAME, HOME MAILING ADDRESS, SOCIAL SECURITY NUMBER, AND SIGNATURE. IF YOU ARE REQUESTING AN ESTIMATE OF RETIREMENT BENEFITS, PLEASE INCLUDE ANY RETIREMENT DATES YOU ARE CONSIDERING. IF YOU ARE REQUESTING A SERVICE PURCHASE CALCULATION, PLEASE INCLUDE THE TYPE OF PURCHASE AND THE NECESSARY VERIFICATION IF REQUIRED.

**BY
PHONE**

1-800-928-4646

EMPLOYEE CALL CENTER: EXTENSION 4522
RETIREE CALL CENTER: EXTENSION 4520
DISABILITY CALL CENTER: EXTENSION 4521

TELEPHONE INQUIRIES ARE HANDLED BY THE RETIREMENT SYSTEMS' CALL CENTER, WHICH ASSISTS CALLERS IN OBTAINING SERVICES OR FORMS AND WITH ANSWERS TO QUESTIONS ABOUT THE RETIREMENT SYSTEM. YOU CAN ALSO MAKE AN APPOINTMENT TO SEE A KRS COUNSELOR AT THE RETIREMENT OFFICE OR SUBMIT A REQUEST FOR INFORMATION BY CONTACTING THE KRS CALL CENTER.

**WEB
PAGE**

VISIT US ONLINE AT:
WWW.KYRET.COM

YOU CAN GENERATE INDIVIDUAL RETIREMENT ESTIMATES ONLINE BY GOING TO WWW.KYRET.COM AND SELECTING "ONLINE BENEFIT ESTIMATOR". EDUCATIONAL MATERIALS AND FORMS ARE ALSO AVAILABLE ON OUR WEB PAGE.



KENTUCKY RETIREMENT SYSTEMS
PERIMETER PARK WEST
1260 LOUISVILLE ROAD
FRANKFORT KY 40601